

BUDGET HEARING

ON

**FY 2010 BUDGET REQUEST OF THE OFFICE OF THE
CHIEF FINANCIAL OFFICER (OCFO)**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**April 8, 2009, 10:00 a.m.
John A. Wilson Building, Chamber**



**Testimony of
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Deputy Chief Financial Officer
Office of Tax and Revenue**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee. I am Stephen Cordi, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony on OTR's FY 2010 budget request and performance objectives.

FY 2010 Budget Request

The FY 2010 budget request for OTR is \$71.6 million and 510 FTEs, a decrease in gross funds of \$19.1 million (21%) and 123 FTEs from FY2009. Of this amount, \$16.4 million and 64 FTEs reflects the realignment of staff and non-personal services for OTR's information technology operations to the Chief Information Officer, and a shift of staffing resources to support the audit and internal controls work being done by the Office of Integrity and Oversight (OIO) and the Office of Financial Operations and Systems (OFOS). One FTE is also being designated to create a Chief Risk Officer for the OCFO, per the recommendations of the Wilmer Hale report.

The budget reduces OTR FTEs by cutting 59 vacant FTEs and approximately \$4.1 million in personal services budget, largely in Customer Service, Returns Processing and other non-revenue generating positions. We remain mindful, not only of our mission to collect revenue, but also of the operational needs

highlighted by the various external audits conducted over the last year. As such, we limited the cuts in the Real Property Tax Administration, and have balanced reductions in Compliance with the proposed tax amnesty initiative, which should increase voluntary compliance and, at least temporarily, reduce the workload of revenue officers.

The total Other-type budget request for FY 2010 is \$24.5 million, which will fund ongoing collection outsourcing, discovery and section 482 audits. All of these are contingency contracts, meaning that no expenses are incurred unless collections are realized. Another \$7 million in operating expenses of the Compliance Administration will be funded by fees charged to delinquent taxpayers.

Since FY 2007, the Other-type budget has also contained \$1.4 million for the temporary relocation of the Recorder of Deeds to new space during the planned renovation of 515 D Street. Conditions in the building continue to be poor, both for employees and visitors to the building. We have been working with OPM to find temporary space during the renovations of the ROD building, and it appears that we may be able to move in FY 2010. Another \$1.2 million is budgeted in Surcharge funds for various automation efforts, including a comprehensive project to scan paper documents currently stored in the building. That contract work is

underway now, and will reduce the volume of records that would have to be moved to the temporary space. As part of the FY 2009 budget, \$4.8 million of the accumulated fund balance in the Surcharge account was shifted to the general fund. If Surcharge collections continue at their current rate, which is down significantly due to the problems in the real estate markets, we expect that the accumulated fund balance will be depleted by the end of FY 2010.

FY 2010 Performance Objectives

Taxpayer Services

We are hopeful that the impact on taxpayers from the cuts may be mitigated through increases in electronic filing. Right now, electronic filing is running about 8% ahead of last year. Your committee has before it Bill 18-0047, which would lower the EFT requirement to \$10,000 from \$25,000 and encourage more electronic filing of business tax returns. Going forward, we will continue to stress the advantages of electronic filing to those looking for a speedy refund and look at options to expand the population using this technology.

Likewise, we will look for additional self service options (and do more to publicize those we already have) with the intention of reducing the numbers of taxpayers requesting live assistance from our Customer Service walk-in and call centers. We

will also be looking closely at process and notice improvements that we can make to reduce the number of contacts that we cause by sending unclear or incorrect information to taxpayers.

Revenue

In FY 2010, OTR will maintain our focus on revenue collections. Significant investments made in the Compliance area over the past three years have yielded real results. We have filled 21 of the 25 positions authorized in FY 2009, and have offers pending on the 4 remaining.

The amnesty program proposed for FY 2010, which will increase voluntary compliance, should reduce the need for some compliance personnel for a period of time going forward. We are also implementing more robust fraud prevention programs, using data matching to identify potentially fraudulent filers.

Internal Controls

As I said before, the Real Property Tax Administration has been largely saved from personnel reductions while we are working to shore up internal controls and implement new policies and procedures. We are preparing the Statement of Work for a new Real Property system that will provide more robust audit trails and

review processes, and which will significantly reduce the labor associated with the issuing of bills and management of TIFs, BIDs and the various abatement and exemption programs that ITS was never designed to handle. We expect to issue an RFP for a new system this year. Until a new system comes on line the processes in this area will continue to be labor intensive and the operation of control mechanisms will need to be closely monitored.

In addition, we are working to fill critical vacancies in the Assessment division, which generates significant revenue for the District. We are also reallocating staff internally to improve the coordination and defense of appeals at BRPAA and Superior Court. Early counts indicate that appeals of Tax Year 2010 assessments are down from the prior year.

Technology

Technology continues to be the single largest issue facing OTR, determining both our ability to succeed in generating additional revenue and to reduce the risk of fraud from internal and external sources. As I have testified before, we are continuing our efforts to tighten internal controls within the Integrated Tax System (ITS) and look more closely at business rules and processes. Several interim

enhancements that address specific audit comments will be in place before the end of the fiscal year.

The ITS modernization effort has started with the hiring of a program manager and the issuance of an RFP for project assistance. Based upon our research and consultation with our industry peers, we have decided that we will separate the real property system from the business and personal tax system. We plan to complete the property tax system requirements by summer, so that contract award may occur early in FY 2010 and a new system would be in place by early 2011. We aim to complete the requirements for the business and personal income tax system in FY 2010. We envision contract award early in FY 2011 with the new system in place by 2013.

The current capital funding plan for ITS includes \$5 million over the next two fiscal years. When combined with existing capital balances, this should be sufficient to cover most of the project. We will evaluate again after the responses to the initial RFP and determine whether additional funding will be needed in the out years.

Conclusion

OTR has made significant improvements in processes and controls over the last year and a half, and the FY 2010 budget will support the continuation of these improvements. Some areas will be affected by the proposed reductions, but we believe that improved outreach and use of automated systems can minimize the impacts on the taxpayers. We remain committed to our core mission of collecting the revenue due to the District, and will ensure that our compliance initiatives continue to support that mission.

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